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Annual Report 2003

GENNUM
CORPORATION



www.gennum.com

GENNUM at a Glance

Gennum Corporation is a leading supplier of semiconductor devices. The company's integrated circuits (ICs), systems-on-chip (SoC) and systems-in-a-package (SiP) are used in a variety of applications in the consumer, imaging instrument and data communications markets.

Gennum serves an international customer base from its offices in Burlington and Ottawa, Canada, as well as subsidiaries in Europe and the United Kingdom.

Semiconductor Solutions for Specialized Market Applications



Video Products

Video Transport components / Image Processing components

Gennum's transport products facilitate the transmission and reception of standard and high-definition video in studios and in post-production houses, allowing the creation, processing and distribution of video and film content.

Image processing components enable various signal formats to be scaled and transformed for display on high-quality screens such as high-end projection systems, plasma screens, LCD and large-screen home theatre systems.



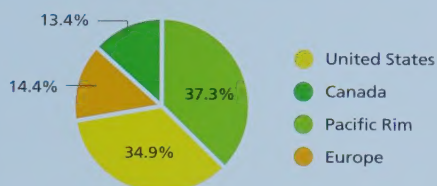
Hearing Instrument Products

Digital Signal Processing (DSP) components / Low Power Analogue components

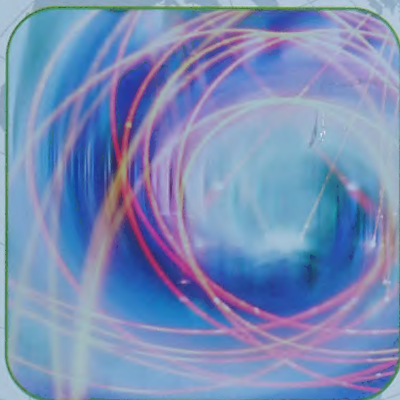
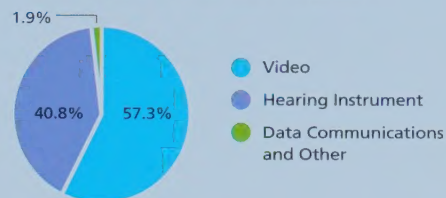
Digital platforms, new software and unique miniature packaging methods combine to improve the performance of Gennum's hearing instrument products.

Ultra low-power digital products ensure high-fidelity audio processing. In addition, comprehensive on-line tools allow customers to tailor the base software applications to meet their unique needs.

Geographic Distribution of Revenue



Revenue by Business Segment



Data Communications Products

Serializer/Deserializer (SerDes) ICs / Clock and Data Recovery (CDR) and Equalizer ICs

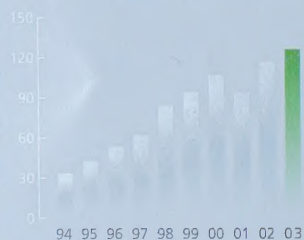
Gennum's SerDes products support high-speed data transport for networking equipment backplane transport applications.

CDR and Equalizer ICs enable high-speed data transport between routers and switches or other networking equipment (copper and optical transceiver applications).

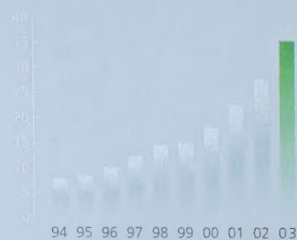
new
products
+
new
markets
=
the
next level
of growth

FINANCIAL HIGHLIGHTS

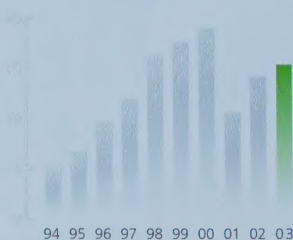
Revenue (\$ millions)



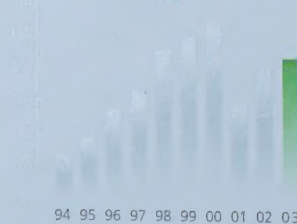
R & D (\$ millions)



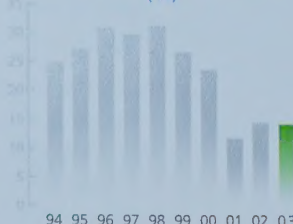
Net Earnings (\$ millions)



Net Earnings Per Share (\$)



Return on Average Equity (%)



Cash and Cash Equivalents (\$ millions)



Core Strengths

High-Speed Transmission – The ability to transmit serial data over fiber media at high speeds and error-free, positions Gennum to handle the complex content of networking.

Low Power – Our unique expertise enables the development of sophisticated signal processing schemes at extremely low power levels.

Multi-chip Packaging – Gennum's specialized technology integrates components in miniaturized modules that support high functionality for increasingly complex applications.

Design Methodologies – Gennum's extensive system-on-a-chip (SOC) capabilities, integrated with leading-edge algorithms, enable a high level of product development complexity.

Custom Solutions – Our intimate knowledge of market requirements, combined with our expertise and commitment to R&D, equips us to offer solutions that deliver superior value.

MESSAGE FROM THE PRESIDENT AND CEO



Ian L. McWalter
President and CEO

Today, we believe we have the skills, resources and positioning to take Gennum to the next level. It is a challenge that has engaged everyone in the company as we see the next generation of possibilities come much more sharply into focus.

The next level of growth

Gennum's goal is to be a leading semiconductor device company; one that is recognized and respected around the world. In the markets in which we currently participate, we have achieved this.

But now the stakes are increasing. Our objectives have expanded and the markets we are targeting are larger and faster growing. We are looking to embark on Gennum's next phase of growth, one that holds tremendous opportunity and, as usual, challenges to match.

This year will see our strategies and our ability to perform tested. We have not got to this point quickly, or by accident. For the past 30 years Gennum has found ways to grow – and be consistently profitable – in markets that are changing and often difficult to predict.

Today, we believe we have the skills, resources and positioning to take Gennum to the next level. It is a challenge that has engaged everyone in the company as we see the next generation of possibilities come much more sharply into focus.

Appropriately, the theme of this annual report is Gennum's next level of growth. But before we look to the future, let me put some perspective on Gennum's performance and progress over the past year.

Solid 2003 performance

The past year was a good one both in terms of our financial performance and from an operating standpoint. Consolidated revenue increased 7.8% to \$125.4 million while net earnings rose 8.3% to \$15.3 million, or \$0.43 per share.

Revenue from our video segment increased by 23.9% as the result of strong sales worldwide of both high-definition and standard-definition products as the conversion by broadcast studios to a high-definition format continues. We also made good initial progress on our next generation VISUAL EXCELLENCE™ (VXP™) image processing and GEN-Clocks™ timing generation products.

Sales of our hearing instrument products declined by 10.8% due to pricing pressures, some loss in market share and a strong Canadian dollar. A decrease in sales of our traditional analogue products also contributed to lower revenue. We have made progress in expanding our digital product line with the introduction of the FOUNDATION™ line and the development of the DUET™ line, which was launched early in the current fiscal year.

Our opportunities in hearing products are expanding as new distribution channels open up and as wireless technology offers new applications for our products and technology.

Finally, in our data communications segment in 2003, revenue passed the \$1 million mark for the first time as we moved closer to the launch of products incorporating new Gennum technologies in 2004. We have achieved a number of important design wins in the datacom segment, which we believe will result in significant sales increases in 2004.

Our 2003 results were affected by several other factors. We achieved a number of improvements in productivity across the organization. Operating expenses as a percentage of revenue declined by 5.7% due to improved manufacturing yields. R&D expenditures as a percentage of sales were 28.1% in 2003 compared to 23.8% the year before. A high level of investment to support product development has been necessary to take advantage of new opportunities.

The decline in the value of the United States dollar reduced our revenue across the board in 2003. However, an effective hedging strategy mitigated the impact on our bottom line.

More traction on our growth strategy

2004 should see more evidence of our growth strategy driving Gennum's results. Over the past few years, we have invested heavily in our ability to bring new products to market and in expanding our market reach. While we have expanded our horizons, we have focused on selective areas where we can achieve a leadership position.

In Video, we are expanding our presence into two related markets – VISUAL EXCELLENCE™ (VXP™) image processing and GEN-Clocks™ timing generation products. We expect the demand for our digital video transport products to continue for several years.

In Hearing Instruments, our new technologies are achieving significant advances in miniaturization, sound quality and low power usage. New, more direct distribution channels are opening up in the hearing instrument market allowing us to move away from being a component provider, so that we can realize additional value from our technology. By the end of 2004, Gennum will have a range of digital products available in all price segments of the market, giving us an opportunity to

establish a presence in new audio applications and regain some of the share we have lost in hearing instruments.

In Data Communications, we achieved a series of design wins for our new high-speed chips that will help move Internet traffic at high speeds while protecting data integrity. The company's new chips will come to production in 2004 in the next generation of higher performance data communications equipment.

Going forward

During the latter part of 2003, Robert S. Weiss and Roger M. Dickhout were appointed to the Board of Directors of Gennum Corporation. Both individuals bring experience at a senior executive level, further strengthening the Board.

Discipline, productivity, energy, commitment – these are the qualities that have driven Gennum's success in the past and they remain paramount as we tackle new and larger challenges. We remain committed to successfully managing customer relationships – by delivering products that are appropriate and service levels that prove our customers are valued.

I'd like to thank all our employees who have delivered another year of success for Gennum. Their integrity, dedication and talent continue to drive us forward.

The potential for Gennum is far greater than it has ever been. We believe that we are prepared for the steps ahead and, through new products and new markets, will move to the next level.



Ian L. McWalter
President and Chief Executive Officer

new products + new markets = the next level of growth

Gennum is prepared to enter the next level of growth as many of our selected markets expand and we leverage our technology platforms to develop new products for a wider range of opportunities.

In 1988, we expanded our base in the hearing instrument market to new applications in the video transport market. In 2003, it was video products, primarily those developed over the past three years, that helped Gennum realize an 8% increase in revenue and net earnings. This growth was achieved despite a rising Canadian dollar, large increases in R&D expenses and continuing soft markets for hearing instrument products.

Now Gennum is reaching wider still. We are developing new products in the data communications area to enable high-speed data transmission. In the video segment, new products are being rolled out to meet growing demand for high-quality images in plasma screens, LCD and large-screen home theatre systems and high-end projection systems. In the hearing instrument products group, wireless applications and more affordable listening device solutions are providing us with new growth opportunities in our most established business segment.

Gennum has doubled R&D spending over the past three years, substantially increasing our ability to develop new products and bring them to market. We have also invested in strengthening our design systems and incorporating leading-edge technology to support our efforts.

Gennum has remained profitable at the same time as we have funded a significant increase in R&D. We have increased our cash and cash equivalents to their highest

level ever, up 78% to \$34.3 million in 2003. We are able to fully finance our development and expansion.

Gennum is a high technology company that has been profitable every year since our start 30 years ago. We operate from a sound financial base with no long-term debt and a strong cash position. Our significant commitment to R&D has been and continues to be a key component of Gennum's strategy. We believe that this will enable us to be a leader in our chosen markets.



Peter D. Bloch
Vice-President,
Finance and
Administration and
Chief Financial Officer

VIDEO PRODUCTS

Gennum is the leading provider of high-performance components to video equipment and systems manufacturers for broadcast television and post-production for video and film content creation.

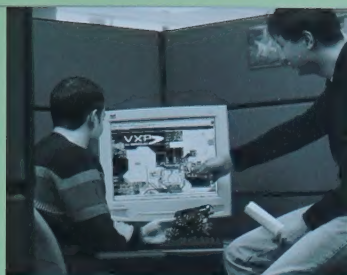
Gennum's results were powered, in large part, in 2003 by the products developed over the past three years to help transport video data in the studio and in post-production. Gennum's video transport products are recognized across the industry for setting a high standard of speed, image quality and reliability. That is why the company has been able to capture such a high market share as the industry begins to convert to high-definition television (HDTV) formats, which require more sophisticated data transport capabilities in order to deliver a high resolution, high quality, wide-screen picture.

Gennum's video segment delivered 24% top line growth in 2003 as Japanese television stations continued a government-mandated conversion to HDTV standards. All stations in Japan must convert by 2007. At the same time, conversions are increasing in North America and Europe, as consumers gravitate to the HDTV format, and in China as it prepares for the 2008 Olympics.

With strong markets expected for digital video transport products through this decade, Gennum is looking to expand its presence in two related markets – image processing and timing generation products.

In the image processing area, Gennum's high-end products, based on system-on-a-chip (SoC) and broadcast quality video algorithms, are being used to help achieve superior image quality in projectors, plasma screens and LCD flat panel displays. Timing generation products, based on proprietary leading-edge technology, help to manage broadcast signals, reduce wander and interference, and improve image quality with minimum system cost and components.

In 2003, Gennum completed the prototype of our second generation of VISUAL EXCELLENCE™ or VXP™ image processing products, the most complex product ever developed by Gennum. The company also demonstrated its new timing generation or GEN-Clocks™ product. Customer feedback on both products has been extremely positive.



Computer-aided design tools enhance design capability

Gennum's video products bring broadcast quality to the consumer space

demand for image quality drives Gennum sales



VISUAL EXCELLENCE™ image processing product



Scanning electron microscope (magnifies up to 100,000 times)

Gennum has established itself firmly in the video transport market and is building a solid reputation in the newer image processing and timing generation markets.

An ongoing commitment to research and development, coupled with customer and industry partnerships, provides strong traction moving forward as we continue to expand this segment of the business. In the next year, Gennum expects continued strong demand for its transport products, and anticipates good initial growth in both image processing and timing generation products.



David L. Lynch
Senior Vice-President
and General Manager,
Video Products



HEARING INSTRUMENT PRODUCTS

The world of hearing instruments has undergone rapid change in recent years. We have seen our dominant market share position erode as the market rapidly transitioned from analogue technology to digital. We launched our first digital platform, PARAGON®, in late 2001 and positioned it in the mid-range segments - one of the first digital products in those segments. From the initial shipments in 2002 to today, we have delivered over one million PARAGON® systems to our customers. In mid-2003, we launched our second digital platform, FOUNDATION™, this time targeting the cost-sensitive segments of the market. Once again, it was one of the first digital products in those segments. Throughout this period, we have been developing our capabilities in digital technology and growing our understanding of the opportunities presented by the digital markets. Our ARK™ software tools continue to lead the market and provide our customers the ability to rapidly design hearing instrument products with our ICs. We have developed the capability to provide applications software, or algorithms, to supplement those developed by our customers. Our first fully-configured product with both hardware and algorithms, DUET™, commenced shipments at the start of fiscal 2004. As we have transitioned into the digital market, we have kept a very strong focus on low power consumption and excellent sound quality. In fact, our digital products have the highest fidelity

sound in the industry. In 2003, we launched our SOUND DESIGN™ marketing campaign to create broader awareness of this in the marketplace.

Despite the success of our initial digital products, it was clear that reclaiming our market share leadership in an increasingly digital market would require technology leadership. To this end, we have invested heavily in R&D during 2003 and will continue to do so in 2004. The fruits of this investment will be our next generation, market-leading digital platform VOYAGEUR™ and an ultra-low power digital wireless platform, both scheduled to be introduced before the end of 2004. Ultra-low power wireless, in particular, has the potential to be the next breakthrough technology in hearing instruments and we are planning to be a leader in bringing this to market.

During this period of increased R&D spending and to deal with the effects of a poor pricing environment and a strong Canadian dollar, we have focused sharply on operational efficiencies and productivity, both in manufacturing and R&D. In 2003, we made significant gains in production efficiencies which we expect will continue in 2004 and beyond.

In addition to technology, the hearing instrument markets are evolving in other ways. The decreasing cost of hearing devices as well as increasing disposable incomes bode well for potential market growth in developing countries. Development of new channels of distribution also hold the promise of market expansion by delivering products to a

reclaiming technology and market leadership



On-site sound chamber supports audio research and testing

Hybrid products processed through Surface Mount Line



Digital products for hearing instruments



Collaborative effort in the design process

Gora Ganguli
Senior Vice-President
and General Manager,
Hearing Instrument
Products



broader customer base. Gennum is taking a proactive approach to these new trends and, working with strategic partners, we are quickly positioning ourselves as a leader in these new growth opportunities.

Business expansion from technology convergence

As the hearing instrument industry transitions to digital and wireless technologies and the consumer electronics industry introduces ear-worn wireless devices such as mobile phone headsets, a convergence of technologies is taking place. This convergence will certainly lead to the emergence of new, multi-functional devices that cross the boundaries between hearing instruments and broader consumer markets. We identified this potential for convergence at an early stage and have been developing the products and capabilities to capitalize on it. The first such product, a combination hearing device and mobile phone headset, will be introduced in 2004. We are uniquely positioned to benefit from this technology convergence and see this as an opportunity to grow our business beyond hearing instruments into a broader market for audio products.



Gennum's new data communications products are beginning to enter the production phase and will power the next generation of high-speed networking gear.

Through the successful application of Gennum's core semiconductor technology that enables high-speed data transmission, innovative products have been introduced to the market. These products have found market acceptance culminating in the first year of significant sales for the Data Communications Division.

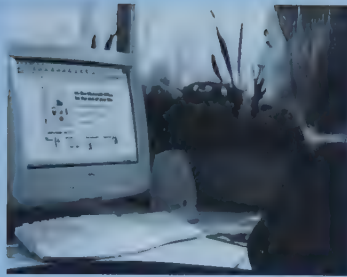
Gennum's products address two key areas in high-speed networking gear – optical transceivers and backplane interconnects.

Optical transceiver modules perform the key optical to electrical and electrical to optical signal conversions. The performance of these modules is critical to error-free

delivery of data over optical fiber. Gennum's 10 Gigabit clock and data recovery (CDR) products are targeted for use in optical transceiver modules called XFP. While there are several different types of 10 Gigabit optical transceiver modules targeting either datacom or telecom applications, it is widely expected that XFP modules will be the dominant type in part due to its application independence. XFP is expected to capture a large share of applications such as SONET, 10 Gigabit Ethernet and 10 Gigabit Fiber Channel.

Backplane interconnects represent one of the key bottlenecks in high-speed networking gear. Typical router or switch equipment must transfer large amounts of data between linecards and switch fabric cards. Due to the limitations of printed circuit boards and connectors, the speed and distance of data transmission over a given backplane link is severely limited. Gennum's backplane interconnect products enable these links to operate at higher speeds and reach longer lengths. As 10 Gigabit optical transceivers come into wider use, the demand for Gennum's high-speed backplane interconnect products is expected to increase.

Gennum datacom products will power the next generation of high-speed networking gear



Gennum's technology supports high-speed data transmission over the Internet

Backplane interconnect components in network switches enable high-speed data transmission

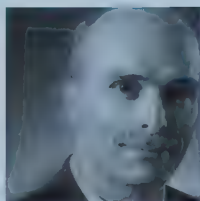


Manufacturing operations



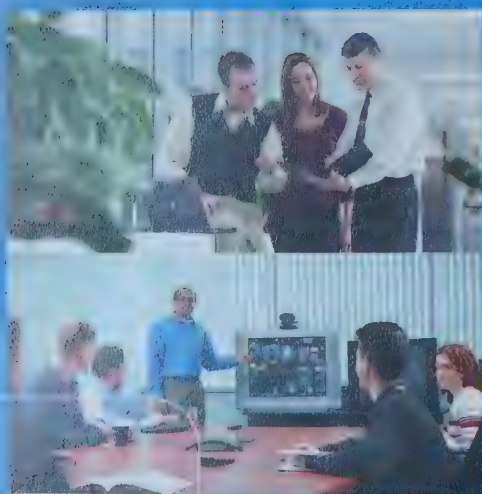
SerDes chip for applications within switches, routers and other networking equipment

Gennum is developing a mix of custom and standards-based products by working directly with major customers for fundamental design specification input and detailed prototype testing feedback. This approach ensures products under development match the needs of key potential customers. Gennum's data communications products have found a beachhead, and we are actively pursuing opportunities aligned with our strategy and product roadmap to expand market share.



Gary M. Beauchamp
Vice-President and
General Manager,
Data Communications
Products

Gennum's strength lies in the knowledge, skills and experience of our people



Allen D. Murray
Vice-President,
Industry Advancing and
Human Resources

Our employees contribute to the growth and success of the organization by developing individually and collectively. For individuals, the emphasis is on providing opportunities to learn and develop both on the job and in learning programs. For groups, the emphasis is on sharing knowledge, building on each other's ideas and collaborating on projects. In addition, we have designed a leadership development program that focuses on people management, employee development and decision making skills.

As the company grows and adapts to a changing business and global environment, we remain committed to our core values. We strive to be successful, ethical, to respect people and to be aligned. Success is achieving or exceeding our planned results and being better than average. Ethics in business is working to maximize the common good of all stakeholders with fairness and with balance. Respect is actively recognizing and benefiting from each person's capability and uniqueness. Alignment is sharing values, vision, goals and direction and working collaboratively with others to accomplish what is needed efficiently and effectively. Gennum was founded on these values, and they underlie our policies, procedures, systems and our actions. They remain an integral part of our corporate culture.

Gennum continues to sustain its partnerships within those communities where we conduct business, support education and in which our employees live. We are active participants in industry and standards bodies. We support joint research and development activities at Canadian universities. And, we participate in community initiatives and provide funding for a number of local charitable causes.

Our people, our values and our partnerships – all contribute to Gennum's success.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Caution about forward-looking statements

This document may contain forward-looking statements relating to our operations or to the environment in which we operate and our strategy, litigation and investments, which may involve estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict and/or are beyond our control. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. These factors include those set forth in this report and other public filings. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made.

We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following discussion and analysis should be read in conjunction with the company's fiscal 2003, 2002 and 2001 consolidated financial statements and accompanying notes. Our public disclosure documents, including historical financial statements and our annual information form, can be viewed at www.sedar.com.

OVERVIEW

Gennum Corporation is a leading producer of hybrid and silicon integrated circuits (ICs) for the video, hearing instrument and data communications markets. The company has offices in Burlington and Ottawa, Canada, and subsidiaries in Japan and the United Kingdom. Gennum has been in operation since 1973, and its shares have been listed on the Toronto Stock Exchange since 1982.

CORE BUSINESSES AND BUSINESS ENVIRONMENT

Since 2000, we significantly expanded our R&D capabilities, opened a design centre in Ottawa, Ontario and completed a new 68,000 sq. ft. building to house our expanding video and data communications groups near our existing facility in Burlington, Ontario. We have also made major investments in increasing our R&D staff and providing them with the latest and most efficient technological tools. The design centre in Ottawa allowed us to tap into the area's base of highly skilled people at a time when the Ottawa-area technology industry was in recession.

Over the past three years, our annual commitment to R&D has almost doubled, from \$18.0 million in fiscal 2000 (or 16.9% of revenue) to \$35.3 million in fiscal 2003 (or 28.1% of revenue). We expect this level of spending as a percentage of revenue to continue over the short term.

We continue our commitment to R&D to enhance the breadth and scope of our product development efforts and to accelerate the rate of development to take advantage of opportunities in all three business segments.

Video - As a component supplier, we serve the manufacturers of video equipment and systems for broadcast television and film and video content creation and distribution. The equipment and their components must meet the industry's highest performance standards as content must be originated in the highest quality level possible.

Our products include the GenLINX® and HD-LINX® lines, for sending and receiving video signals, and our MultiGEN™ line, which makes possible the processing and conversion of video content.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The move towards high-definition (HDTV) in broadcast television studios and in post-production houses is fueling our development activity and long-term growth.

This trend is driven by technology that allows for the digitization of video content creation, combined with growing consumer demand for an improved viewing experience. Together, improved technologies and increasing demand are helping to drive prices down for high-definition televisions and other viewing devices. This, in turn, is increasing demand for HDTV transmission and programming.

In Japan, the government has required broadcasters to fully convert to HDTV standards by 2007. Korea is expected to start its transition to HDTV capability in preparation for the 2008 Olympics. In the United States, broadcasters are continuing to adopt HDTV standards.

We have also developed new products in two additional market areas – image processing and timing generation. Our high-end VISUAL EXCELLENCE™ (VXP™) image processing products are part of the fast-growing market for projectors, plasma screens and LCD flat panel displays.

Our VXP locks™ timing generation products, first demonstrated in 2003, are used to manage video and communications signals.

Hearing Instrument Products - We supply semiconductor components to virtually all of the manufacturers of hearing instruments. We produce about 140 different ICs for this market, ranging from single-function ICs to complex miniaturized modules containing a number of ICs coupled with other passive electronic parts.

The hearing instrument market is going through significant change, characterized by declining prices and the rapid transition from analogue to digital technology. We are also moving to take advantage of opportunities created by improvements in wireless technology, and we expect to introduce new products in 2004 that combine the benefits of high-end digital technology with low power and short-range wireless capability.

We are developing a new generation of digital hearing products. In May, 2003 we introduced our first digital FOUNDATION™ digital line, followed in December, 2003 with the high-end DUET™ line, featuring an advanced noise reduction algorithm.

In 2004 we plan to launch a new high-end product featuring a powerful programmable platform and our GUIDETM suite of development tools.

With this series of product launches a full range of digital hearing instrument products will be available. We have lost some market share as the industry has converted to digital products more quickly than expected, and we have also experienced some delays in digital product introductions. However, we expect to regain market share with the introduction of industry-leading technology.

In October, 2003 we completed an agreement with a new partner to co-develop and bring to market a unique new line of hearing instrument products. In return for providing U.S. \$2.5 million in development funding, we will be their exclusive supplier of ICs and system level assemblies and will receive payments based on units sold.

Data Communications - In 2001, we established a new business in the high-speed data communications market. Revenue in this market was not material in 2002 and surpassed \$1 million for the first time in 2003. This business leverages our video product group's core competencies in high-speed signal transmission.

Our data communications products address two key areas in high-speed networking equipment – optical transceivers and backplane interconnects. With data and Internet-based traffic continuing

to increase sharply, demand for products that can increase data rates and maintain integrity is expected to remain strong. In the optical transceiver market we have developed products that meet the new (XFP) industry standards, delivering data at speeds of up to 10 Gigabits per second. In the backplane interconnect market our products address a key bottleneck in high-speed networking equipment by allowing the transfer of data within this equipment at up to 5 and 10 Gigabits per second.

In 2003, our data communications products were well received as evidenced by several design wins. 2004 will be an important year as our customers enter production with products incorporating our new technologies. The extent of the data communications segment's sales growth is tied in part to the extent and speed at which the industry adopts the new XFP standards, which are supported by many industry leaders.

CORPORATE STRATEGY

Our strategy is to develop a leadership position in our selected markets in the video, hearing instrument and data communications businesses. In order to achieve this objective we have continued to expand our R&D capability. In addition, we have a strong focus on continuing to improve the profitability of the company.

In all three segments, we seek new opportunities that are close to our existing technologies and markets. We want to extend our expertise and experience to similar market opportunities, leveraging our know-how in specific areas where we can be not just another supplier, but a strong competitor with a leading market position offering customer-relevant product advantages. This is the nature of our expansion into selected areas of the high-speed data communications market and the high-end video image processing market. In the hearing instrument segment, the goal is to regain market share by developing the best digital technologies available and creating new wireless applications.

To ensure we can maintain and continue to enhance our R&D capabilities, it is essential to grow our earnings and cash flows. In 2003, we developed programs to improve manufacturing efficiencies. This was one factor in helping to achieve stronger margins during the year. Focusing on technological innovation and superior, high-end capabilities also helps to protect our margins.

CAPABILITIES

The ability to identify, research and develop leading, market-oriented, proprietary technologies - We operate in a knowledge-based business and the ability to attract and keep the best employees is critical. We provide a values-based working environment, competitive incentive and compensation packages, the opportunity to participate in leading-edge projects and have a strong track record of growth and profitability. We foster a working culture that stresses creativity, teamwork, integrity and respect for others.

Industry competition for talent has declined during the recent slowdown in the high-technology sector. However, prospects within the industry have been improving and any sustained recovery will likely result in increased competition for qualified staff.

The ability to sustain close relationships with key customers and business partners -

About one-third of our workforce is oriented to providing customer service. We pride ourselves on our ability to develop and maintain close and productive relationships with our clients. Our culture places emphasis on excellent service, and we recognize employees' achievements at all levels of the organization.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The ability to achieve high and consistent levels of product quality and to do so efficiently - Employees share a commitment to excellence and to continuous improvement. Our Quality Program in Burlington, Ontario is registered to ISO 9001:2000 standards and is constantly evaluated through internal and external audits.

The ability to select and enter new markets, leveraging existing technologies into new development opportunities - We employ comprehensive planning processes that keep us closely attuned to trends and developments regarding new technologies, products, applications and the changing dynamics that drive customers' purchasing decisions. Our focus is to be a leading player in specialized markets. This is supported by a keen commitment to product support during and after the development phase. Our ability to gather, manage and interpret market intelligence in a fast-changing business environment is critical to our success.

RESULTS OF OPERATIONS

Revenue

Years ended Nov 30 (millions of dollars)

	2003	2002	% Change in 2003	2001	% Change in 2002
Video	\$ 71.9	\$ 58.0	23.9	\$ 43.4	33.9
Hearing instruments	\$ 51.2	\$ 57.4	-10.8	\$ 48.4	18.6
Audio communications	\$ 1.3	\$ 0.1	n/m	\$ n/m	n/m
Other	\$ 1.0	\$ 0.8	43.1	\$ 1.3	-38.5
Total revenue	\$125.4	\$116.3	7.8	\$ 93.1	25.0

Consolidated revenue rose 7.8% in fiscal 2003, driven by increased sales of high-definition video products, primarily in Japan where the government has required conversion of all television broadcasting to a high-definition format over the next three to five years. These gains were offset in part by the impact of a stronger Canadian dollar.

In 2002, consolidated revenue rose 25% as both video and hearing instruments revenue increased. Video revenue benefited from sales of high-definition products to the Japanese market while the growth in the hearing instrument segment came from increased penetration of our digital signal processing products.

Video products revenue rose 23.9% with sales of high-definition video products increasing by 15.2% to \$40.9 million over the prior year. Revenue for standard-definition video products increased by 4.4% in 2003, as the U.S. market strengthened. Fiscal 2003 revenue would have increased by a further 8% had the Canadian dollar exchange rate to the U.S. dollar and Japanese yen remained the same as the prior year. In fiscal 2003, 49.0% of video products revenue came from U.S. dollar sales (2002 - 48.0%) while 47.2% came from sales in Japanese yen (2002 - 48.6%).

In fiscal 2002, video products revenue grew by 33.9% over 2001 primarily due to substantial increases in high-definition product revenue in Japan. Revenue for standard-definition products declined, although we grew our share of this market. Video products represented 57.3% of total revenue in 2003, 49.9% in 2002 and 46.6% in 2001.

Total revenue

Years ended Nov 30
(millions of dollars)

Hearing instrument products revenue declined by 10.8% in fiscal 2003, despite a 37.5% increase in digital signal processing products revenue. In addition to the impact of a stronger Canadian dollar, the shortfall is attributable to continued pricing pressure as a result of weak market conditions and aggressive price actions by competitors. Analogue product sales have also declined because of an accelerated switch to digital products in the marketplace.

Our new FOUNDATION™ line of digital products was launched later than expected, in May of 2003, due to software delays. Nevertheless, the FOUNDATION™ line has been well received by the market. Overall unit growth in digital products was 67.0% versus 2002, and we continued to grow market share in this segment in 2003. Worldwide hearing instrument markets are showing signs of recovery. The continued strength of the Canadian dollar, price competition and decline of analogue products remain the areas of concern in 2004, and we continue to focus on productivity improvements and the launch of new high-value digital products to offset these factors.

Hearing instrument revenue increased 18.6% in 2002 from the prior fiscal year, reflecting market share gains by our new digital signal processing products. The global hearing instrument industry overall showed modest decline in 2002. Revenue from older analogue products was below that for the prior year, resulting from the market transition to newer digital processing products. Hearing instrument products represented 40.8% of total revenue in 2003 compared with 49.4% in 2002 and 52.0% in 2001.

Data communications revenue rose to \$1.3 million in fiscal 2003 compared to \$0.1 million in fiscal 2002, reflecting pre-production and prototyping sales as we move closer to the launch of products incorporating new technologies.

Other revenue was \$1.0 million in fiscal 2003 compared to \$0.7 million in 2002. This revenue consists primarily of user specific IC products outside of our core markets.

In 2003, we experienced a 2.9% increase in North American revenue while Pacific Rim revenue rose by 12.1% and European revenue increased by 15.1%. These results may be somewhat distorted due to the fact that the customer purchasing decision sometimes originates in a different region than the product destination.

Operating expenses excluding R&D

Years ended Nov 30 (millions of dollars)

	2003	2002	% Change in 2003	2001	% Change in 2002
Operating expenses (including cost of goods)	\$ 74.6	\$ 73.4	1.6	\$ 60.1	22.1
Percentage of revenue	59.5	63.1	-	64.6	-

In 2003, operating expenses as a percentage of revenue declined as a result of manufacturing efficiency improvements and foreign exchange hedging gains. In addition, there was a favourable margin variance due to a larger percentage of revenue being derived from higher margin video products. These improvements were partially offset by increased legal costs associated with a patent infringement claim. Gennum is the subject of a patent infringement claim in the U.S. courts relating to a limited number of our non-core products, which is scheduled for trial during our second quarter of 2004. Management believes the claim to be unsubstantiated and continues to defend the company's position.

Operating expenses as a percentage of revenue

Years ended Nov 30
(millions of dollars)



MANAGEMENT'S DISCUSSION AND ANALYSIS

During the year, the foreign exchange impact of the strengthening Canadian dollar was partially mitigated by a \$4.2 million gain from foreign exchange hedge contracts.

In fiscal 2002, operating expenses as a percentage of revenue decreased to 63.1%. During the year, margins improved as a result of a sales mix of more video and fewer hearing instrument products. This was partially offset by increased sales and marketing and administration costs primarily resulting from additional performance-based compensation owing under our profit sharing and incentive plans. In addition, in 2001 management discontinued the practice of allocating non-manufacturing administration costs to inventories.

Operating expense is not a measure of performance calculated in accordance with Canadian Generally Accepted Accounting Principals (GAAP) and does not have any standardized meaning under GAAP. Our definition of operating expense includes all expenditures other than R&D.

Research and Development (R&D) expenditures

Years ended Nov 30 (millions of dollars)

	2003	2002	% Change in 2003	2001	% Change in 2002
R&D expense	\$ 35.3	\$ 27.7	27.5	\$ 22.5	22.9
R&D expenses as a % of revenue	28.1	23.8	-	24.2	-

Investment in R&D in fiscal 2003 increased primarily as a result of the additional expenditures to fabricate new computer-simulated circuit designs into silicon form and the addition of design engineers to increase product development capacity. R&D as a percentage of sales has increased significantly in the hearing instrument business as a result of an increased investment in our FOUNDATION™ line of products and high-end digital platforms.

Investment in R&D in 2002 increased to \$27.7 million, representing 23.8% of revenue, down from 24.2% of revenue in 2001. The additional expenditures were attributable to higher performance-based compensation for R&D personnel and incremental expenditures incurred to fabricate new computer-simulated circuit designs into silicon form. In addition, we continued with our plan to improve product development capacity with the addition of designers and new design automation software to handle greater product development complexity.

Income taxes

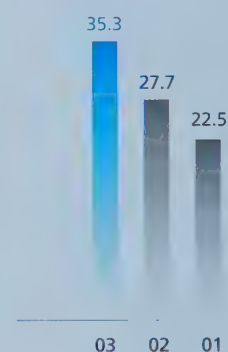
Years ended Nov 30 (millions of dollars)

	2003	2002	% Change in 2003	2001	% Change in 2002
Income taxes	\$ 8.0	\$ 7.0	13.8	\$ 5.0	40.7

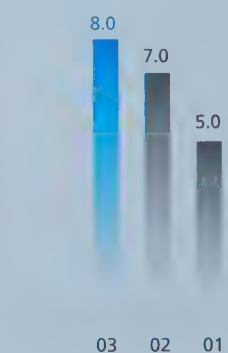
Income taxes for the year represented 34.4% of income before taxes, up marginally from 33.3% in 2002 and 32.2% in 2001. In the past two years, a larger percentage of consolidated net earnings was taxable in Japan, which has a higher corporate taxation rate than Canada.

R&D expenses

Years ended Nov 30
(millions of dollars)

**Income taxes**

Years ended Nov 30
(millions of dollars)



Net earnings

Years ended Nov 30 (millions of dollars except EPS)

	2003	2002	% Change in 2003	2001	% Change in 2002
Net earnings	\$ 15.3	\$ 14.1	8.3	\$ 10.5	33.8
Net earnings as % of revenue	12.2	12.1	0.1	11.3	0.8
Earnings per share (basic)	\$ 0.43	\$ 0.40	7.5	\$ 0.30	33.3
Earnings per share (diluted)	\$ 0.43	\$ 0.39	10.2	\$ 0.30	30.0

Net earnings in fiscal 2003 increased to \$15.3 million, or \$0.43 per share, from \$14.1 million, or \$0.40 per share, in fiscal 2002. The increase was largely due to higher revenue, a mix of sales that included a greater proportion of higher margin video products and improved manufacturing efficiencies that were partially offset by increased expenditures on R&D, and additional legal costs.

In fiscal 2002, net earnings increased 33.8% as revenue increased 25.0% and margins improved, largely due to a product mix of more higher margin video products. These gains were offset in part by increased R&D spending.

Selected consolidated financial information

(in thousands of dollars except EPS)

Quarter	Revenue	Net earnings	Earnings per share (basic)	Earnings per share (diluted)
2002 / Q1	21,865	2,512	0.07	0.07
Q2	26,842	2,689	0.08	0.08
Q3	30,992	3,761	0.11	0.11
Q4	36,615	5,131	0.14	0.14
2003 / Q1	33,456	4,599	0.13	0.13
Q2	30,998	2,420	0.07	0.07
Q3	28,470	3,685	0.10	0.10
Q4	32,509	4,557	0.13	0.13

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents - Cash and cash equivalent balances at 2003 fiscal year end were \$34.3 million, up 77.9% from the end of fiscal 2002. The increase was mainly due to higher earnings and lower capital expenditures.

At November 30, 2002, cash and cash equivalents were \$19.3 million, up \$3.6 million from the prior year-end, after funding capital additions of \$16.2 million, including a new office facility. Cash flow for 2002 improved from 2001 as a result of higher net earnings and more effective management of working capital.

We continue to fund all of our growth and capital acquisitions using cash generated from operations.

Net earningsYears ended Nov 30
(millions of dollars)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Accounts receivable - At November 30, 2003, accounts receivable balances declined to \$17.2 million from \$23.2 million at the end of the prior year, largely as a result of improved customer payments and lower revenue in the fourth quarter of 2003 compared to the fourth quarter of 2002.

At November 30, 2002, accounts receivable balances increased to \$23.2 million from \$12.9 million at the end of the prior year as a result of higher revenue towards the end of the 2002 fiscal year.

No material write-offs occurred in fiscal 2003 or the previous year.

Inventories - Inventories at fiscal 2003 year end were \$24.4 million, up 5.4% from the end of fiscal 2002, as a result of an increase in finished goods inventories required for new digital signal processing hearing products.

At November 30, 2002, inventories were \$23.2 million, down 8.7% from the end of fiscal 2001 as a result of diligent management of inventories and additional revenue in the fourth quarter.

Accounts payable and accrued liabilities - Accounts payable and accrued liabilities at November 30, 2003 were \$16.6 million, down from \$18.3 million at the end of fiscal 2002, primarily as a result of reductions in the amounts owing under our incentive plans.

In fiscal 2002, accounts payable and accrued liabilities at November 30, 2002 rose to \$18.3 million from \$10.7 million a year earlier, primarily due to increases in the amounts owing under our incentive plans. These amounts rise and fall depending on our overall financial performance.

Capital expenditures - Capital additions amounted to \$7.5 million in fiscal 2003, compared to \$16.2 million in 2002. Capital additions were primarily R&D tools (54%), manufacturing equipment (22%) and completion of the new office building (23%).

Expenditures were higher in fiscal 2002 than in 2001, largely due to construction of the new office facility for the video and data communications business units, which was completed in December 2002. Capital additions in 2002 totalled \$16.2 million compared to \$12.4 million in 2001. Expenditures in 2002 and 2001 related primarily to the construction of a new office building and the upgrade of R&D design tools to improve product development efficiency. In addition, we continued to upgrade manufacturing equipment.

Dividends - Gennum paid total dividends of \$4.3 million or \$0.12 per share in each of fiscal 2003, 2002, and 2001.

RISKS AND UNCERTAINTIES

Our company's business is subject to a number of risks and uncertainties that could significantly affect our financial condition and performance. As we grow, expand our commitment to R&D and enter into new markets, these risks increase. At the same time, by diversifying revenue streams across additional product areas, we believe we can mitigate the risk associated with any difficulties encountered in any one product line or market. A comprehensive planning process exists to identify risks and minimize them wherever possible. Key risks include:

Highly competitive environment - The markets in which we compete are very competitive and characterized by rapid technological change and new product introductions. The relative consistency in our performance since inception reflects our ability to compete successfully in this environment. Our long-term focus on R&D combined with a continuing effort to anticipate customers' evolving needs and focus on quality, continue to be important elements in maintaining

this record. In 2003, we spent 28.1% of revenue in R&D compared to 23.8% in 2002. However, the entry of new competitors into the market, or the introduction of competitive products on a more timely basis, or with superior functionality to ours, could have a material adverse effect on our business, results and financial condition.

New markets - Gennum has entered the video image processing and data communications markets. As a new entry, we have focused on developing strategic relationships with leading companies around the world. Our success in the data communications market will depend in large part on the degree and speed of market acceptance of new industry standards affecting data transfer. On the image processing side, our success is dependent in large part on the growth of markets for high-definition televisions, projectors and other video products. Generally, our ability to succeed in all our new markets is subject to uncertainties, including market acceptance of our products, time to market, new competitors and customers and the establishment of distribution channels.

Economic cycles - Historically, the semiconductor industry has been characterized by wide fluctuations in supply and demand. The industry has also experienced significant downturns, often in connection with, or in anticipation of, declines in general economic conditions. These downturns have been characterized by diminished product demand and production overcapacity. In times of high growth, production capacity may be unavailable. While we maintain constant dialogue with our customers to gauge current and expected market conditions and spending patterns, fluctuations in the business environment can occur quickly and with little warning. Currently, the world's major economies seem to be gathering strength and markets for semiconductor devices generally have been expanding. However, industry-wide fluctuations could have a material adverse effect on our business, results and financial condition.

Reliance on key customers - If one or more customers were to delay, reduce or cancel orders, our overall orders could fluctuate and adversely affect revenue. In each of fiscal 2003 and 2002, one customer accounted for more than 10% of total revenue (14% in each year).

Intellectual property - To compete effectively we must protect our proprietary information. We rely on a combination of patent, copyright, trademark and trade secret laws to protect our rights. There can be no assurance that these efforts will prevent misappropriation of such intellectual property by competitors. In addition, although we do not believe we are infringing on the intellectual property rights of others, claims of infringement are becoming increasingly common in the industry.

Gennum is currently the subject of a patent infringement claim in the U.S. courts. This claim relates to a limited number of our non-core products and is now scheduled for trial in our second quarter of 2004. Management believes the claim to be unsubstantiated, and continues to defend the company's position. We have recorded expenses for legal costs associated with this patent litigation during 2003.

In asserting our own claims or defending against claims, we may become involved in time-consuming and costly disputes or litigation. An unfavourable judgement or prolonged legal action may have a material adverse impact on our business, results and financial condition.

Foreign exchange - We are exposed to foreign currency rate fluctuations as revenue is predominantly earned in U.S. dollars and Japanese yen. Expenses are incurred mainly in Canadian dollars, but also in U.S. dollars and Japanese yen. From time to time we may utilize a combination of forward, option or spot strategies to manage the risk associated with fluctuations in foreign exchange rates. At year-end we were not hedged against foreign currency rate fluctuations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reliance on key employees - Our future success is dependent on key employees. While competition in our industry for high-level and competent engineering, marketing and sales staff and executive management has declined in recent years, renewed activity in the high-technology area is likely to stimulate demand for talent. The loss of certain key employees, or the inability to hire and attract key employees, could adversely affect our business, results and financial condition. However, we believe our corporate culture, strong values and emphasis on career development and competitive remuneration position us as a preferred employer for qualified professionals.

Reliance on foundries and ASIC providers - We currently rely on external foundries and Application Specific Integrated Circuit (ASIC) providers to manufacture certain products used in our components. While we have been able to maintain good relationships with suppliers, the current recovery in the semiconductor industry could lead to increased demand on these providers. Any interruption in supply could have a material adverse impact on our business, results and financial condition.

OUTLOOK

After a year of moderate growth in both revenue and earnings in 2003, we are expecting a stronger performance in 2004. Our investments in new products for each of our target markets will continue to be higher than our long-term historical average.

We anticipate that our R&D expenditures for the fabrication of new computer-simulated circuit designs into silicon form will be heavily weighted to the first half of this year. As a result of these expenditures and the co-development funding expenses in our hearing instrument group, we anticipate lower earnings for the first half of the year.

Having achieved over \$1.0 million in sales in 2003, we are very well positioned in the data communications business, both in backplane SerDes and XFP devices. We expect to see continued acceleration of demand for our products in 2004 with more rapid overall market growth occurring in 2005.

After a difficult year in the hearing instrument component business in 2003, we anticipate renewed growth in 2004, both in the end market and in our revenue. Our new lower-priced digital products are being received favourably, and later in the year we will be introducing products which combine the benefits of high-end digital signal processing with low-power short-range wireless capability.

Following a strong year in our video transport business, we expect a more moderate pace of growth in 2004. This will be complemented by the initial market introduction of our VXP™ line of digital image processing products.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Gennum Corporation and the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with the financial statements.

Gennum Corporation maintains systems of internal accounting and administrative controls of high quality. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting, and the Board is ultimately responsible for reviewing and approving the financial statements.

An Audit Committee is appointed by the Board and all of its members are outside directors. The Committee meets periodically with management, as well as with the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, and to review the annual financial statements. The Committee reports its findings to the Board of Directors for consideration in approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards, on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.



Ian L. McWalter
President and Chief Executive Officer



Peter D. Bloch
Vice-President, Finance and Administration and Chief Financial Officer

AUDITORS' REPORT

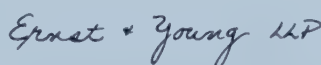
To the Shareholders of Gennum Corporation

We have audited the consolidated balance sheets of Gennum Corporation as at November 30, 2003 and 2002 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at November 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
December 17, 2003



Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at November 30 (Canadian dollars, amounts in thousands)

	2003	2002
ASSETS		
Current		
Cash and cash equivalents	34,269	19,261
Accounts receivable	17,165	23,205
Inventories [note 2]	24,446	23,194
Prepaid expenses and other assets	3,750	4,246
Income taxes recoverable	2,344	-
Total current assets	81,974	69,906
Future income taxes [note 6]	227	435
Capital assets [note 3]	49,482	52,121
	131,683	122,462

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	16,601	18,251
Income taxes payable	-	58
Future income taxes [note 6]	1,693	806
Total current liabilities	18,294	19,115
Future income taxes [note 6]	627	532
Shareholders' equity		
Capital stock [note 4]	7,385	6,995
Deferred compensation [note 4]	(632)	-
Retained earnings	107,463	96,485
Cumulative translation adjustment [note 7]	(1,454)	(665)
Total shareholders' equity	112,762	102,815
	131,683	122,462

See accompanying notes

On behalf of the Board:



Director



Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years ended November 30 (Canadian dollars, amounts in thousands except per share data)

	2003	2002
Revenue [note 5]	125,433	116,314
Investment income	512	206
	125,945	116,520
Expenses excluding amounts shown below	74,627	73,402
Research and development expense	35,285	27,671
Less government assistance	(7,246)	(5,693)
	102,666	95,380
Earnings before income taxes	23,279	21,140
Provision for income taxes [note 6]	8,018	7,046
Net earnings for the year	15,261	14,094
Retained earnings, beginning of year	96,485	86,671
Dividends	(4,283)	(4,280)
Retained earnings, end of year	107,463	96,485
Earnings per share [note 4]		
Basic	\$ 0.43	\$ 0.40
Diluted	\$ 0.43	\$ 0.39
Dividends declared per share	\$ 0.12	\$ 0.12

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended November 30 (Canadian dollars, amounts in thousands)

	2003	2002
OPERATING ACTIVITIES		
Net earnings for the year	15,261	14,094
Add (deduct) items not affecting cash		
Depreciation and amortization	10,102	9,170
Deferred compensation	16	-
Gain on sale of capital assets	-	(100)
Future income taxes	1,190	(882)
	26,569	22,282
Net change in non-cash working capital balances related to operations [note 8]	(14)	2,685
Cash provided by operating activities	26,555	24,967
INVESTING ACTIVITIES		
Purchase of capital assets	(7,482)	(16,162)
Proceeds on sale of capital assets	-	402
Cash used in investing activities	(7,482)	(15,760)
FINANCING ACTIVITIES		
Stock options exercised	390	-
Short-term bank loan	-	(1,255)
Dividends paid	(4,283)	(4,280)
Cash used in financing activities	(3,893)	(5,535)
Effect of exchange rate changes on cash and cash equivalents	(172)	(69)
Net increase in cash and cash equivalents during the year	15,008	3,603
Cash and cash equivalents, beginning of year	19,261	15,658
Cash and cash equivalents, end of year [note 8]	34,269	19,261

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2003 and 2002 (Canadian dollars, amounts in thousands except share and per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Gennum Corporation [the "company"] have been prepared in accordance with Canadian generally accepted accounting principles and within the framework of the significant accounting policies summarized below:

Revenue recognition - Revenue from sales of products is recognized when the price is fixed or determinable, collectibility is reasonably assured and upon shipment to, and acceptance by, the customer.

Principles of consolidation - These consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Gennum Japan KK and Gennum UK Limited. All significant intercompany transactions have been eliminated.

Cash and cash equivalents - Cash and cash equivalents include cash on deposit and term deposits with remaining maturities of three months or less at acquisition.

Translation of foreign currencies - Monetary assets and liabilities of the company denominated in foreign currencies are translated at year-end exchange rates. Revenue and expenses are translated at actual rates of exchange when the transaction occurred. Exchange gains and losses on these items are recognized in earnings in the current year.

The company's operations outside of Canada are considered self-sustaining and accordingly, the assets and liabilities are translated to Canadian dollars using the year-end exchange rates and revenue and expenses are translated at the average rates during the year. Exchange gains or losses on translation of the company's net equity investment in these operations are deferred as a separate component of shareholders' equity.

The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in earnings when there is a reduction, as a result of a capital transaction, in the company's net investment in the operations that gave rise to such exchange gains and losses.

Inventories - Inventories are recorded at the lower of cost and net realizable value. Inventory cost is based on average cost and includes material, labour and manufacturing overhead where applicable.

Capital assets - Capital assets are recorded at cost, net of related government assistance.

Buildings are amortized using the straight-line method over estimated useful lives of 20 years. Equipment and furniture are amortized using the straight-line method over estimated useful lives ranging from five to seven years. Computer software and hardware are amortized using the straight-line method over the estimated useful life of three years.

Government assistance - The company makes periodic applications for financial assistance under available government incentive programs including investment tax credits. Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets. Government assistance relating to research and development expense is recorded as a reduction of expenses when the related expenditures are incurred.

Income taxes - The company follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Stock-based compensation plan - The company accounts for stock options based on the intrinsic value method. Therefore, no compensation expense is recognized for stock options granted under the company's Stock Option Plan. Consideration paid on the exercise of stock options is credited to capital stock.

Earnings per share - The calculation of earnings per share is based on reported net earnings divided by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the assumed conversion of all dilutive securities using the treasury stock method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of estimates - The preparation of the consolidated financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from these estimates.

2. INVENTORIES

	2003	2002
Raw materials and supplies	6,134	6,291
Work in process	12,193	12,130
Finished goods	6,119	4,773
	24,446	23,194

3. CAPITAL ASSETS

	2003	2002
Land	2,823	2,823
Buildings	36,525	26,416
Equipment and furniture	48,477	44,255
Computer software and hardware	20,295	18,015
Construction in progress	1,863	13,379
	109,983	104,888
Less accumulated amortization		
Buildings	9,167	7,429
Equipment and furniture	36,124	32,189
Computer software and hardware	15,210	13,149
	60,501	52,767
	49,482	52,121

The cost of capital asset additions for 2003 is reduced by government assistance of \$678 [2002 - \$802].

4. CAPITAL STOCK

The issued common shares of the company as at November 30, 2003 consist of 35,695,810 common shares [2002 - 35,664,749] at a stated value of \$7,385 [2002 - \$6,995].

(i) Stock option plan

The company has an incentive stock option plan, which provides for the granting of options for the benefit of employees, officers and directors. The total number of company shares that may be issued under this plan is 1,750,000.

All options are granted for a term of seven years from the grant date with vesting of 25% at the end of the first, second, third and fourth years from the date of grant, respectively. All options allow the holder to purchase common shares at a price equal to the market price of such shares at the date of grant.

A summary of the plan and changes during 2003 and 2002 are as follows:

	2003		2002	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding, beginning of year	1,159,625	12.36	890,750	12.42
Granted	10,000	13.49	286,000	12.29
Forfeited	(113,250)	12.33	(17,000)	14.49
Exercised	(31,061)	12.57	(125)	11.43
Outstanding, end of year	1,025,314	12.37	1,159,625	12.36
Options exercisable at year end	614,656	12.49	324,750	12.60

The following table summarizes information about options outstanding at November 30, 2003:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$11.05 – \$16.50	1,025,314	4.5 years	\$12.37	614,656	\$12.49

The following table presents the maximum number of common shares that would be outstanding if all dilutive instruments outstanding at November 30, 2003 were exercised:

Common shares outstanding at November 30, 2003	35,695,810
Options to purchase common shares	1,025,314
	36,721,124

Fair value of stock options - Had compensation cost been determined based on the fair value at the grant date, for the awards granted during the year, the company's net earnings for the year would have been reduced by \$296 (2002 - \$63), and the earnings per common share would have been reduced by \$0.01 to \$0.42 per share (2002 - \$0.01 to \$0.39 per share).

The estimated weighted average fair value of stock options granted during the year is \$4.57 per share (2002 - \$4.57 per share) using the Black-Scholes option-pricing model with the following weighted average assumptions:

Risk free interest rate	4.55%
Expected dividend yield	0.85%
Expected volatility	35.0%
Expected time until exercise	5.5 years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Had compensation been determined based on the fair value at the grant date, for all awards granted since the inception of the incentive stock option plan, the company's net earnings for the year would have been reduced by \$1,333 and in addition, earnings for prior years would have been reduced by \$1,808.

The Black-Scholes option valuation model used by the company to determine fair values was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. In addition, this model requires the input of highly subjective assumptions, including future stock price volatility and expected time until exercise. Because the company's outstanding stock options have characteristics which are significantly different from those of traded options, and because changes in any of the assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

(ii) New incentive plans

On October 31, 2003, the company introduced new employee incentive plans. These plans may contain two components, a cash component, which vests immediately at time of grant and a share component, which has a vesting requirement. The company annually determines the allocation to employees as well as the allocation between the two components.

Compensation expense in respect of the cash component is recorded at the time of grant.

For the share component, the company records deferred compensation as a charge against shareholders' equity at the time of grant and amortizes the deferred compensation into income ratably over the vesting period.

In 2003, the company allocated \$0 to the cash component and \$648 to the share component of the plans of which \$16 was expensed.

Earnings per share - The following is a reconciliation of the numerator and denominator of earnings per share computations:

	2003	2002
Net earnings for the year	15,261	14,094
Weighted average shares outstanding [numbers in thousands]	35,690	35,665
Effect of dilutive stock options	115	39
Diluted weighted average shares outstanding	35,805	35,704
Earnings per share		
Basic	\$ 0.43	\$ 0.40
Diluted	\$ 0.43	\$ 0.39

Options to purchase 98,000 and 500,750 common shares for the years ended November 30, 2003 and 2002, respectively, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

5. SEGMENTED INFORMATION

Segmented Information - The company has three reportable segments:

Hearing Instrument Products [HIP]: Develops and supplies a wide range of components for use by manufacturers of analogue and digital signal processing [DSP] hearing instrument products.

Video Products [Video]: Develops and supplies high-performance image processing, serial digital transmission and timing generation components for display and professional video/film applications.

Data Communications Products [Datacom]: Develops and supplies high-performance physical layer integrated circuits for high-speed backplane and high-speed optical transceiver applications.

Each of the segments above represents strategic business units that offer products to distinct markets. The total of segment profits and other reconciles to earnings before income taxes disclosed in the consolidated statements of earnings and retained earnings. General and administrative costs are allocated to the operating segments based upon estimates of usage. The company has included interest revenue, corporate research and development costs, foreign exchange gains or losses, in the determination of other segment profit. The company's other segment revenue consists primarily of user specific integrated circuit products, which are not included within the operating segment revenues. The total assets in other include cash and cash equivalents, future income taxes, income tax payable and capital assets not allocated to the operating segments. The significant accounting policies of the reportable segments are the same as those described in note 1. Substantially all of the company's assets, operations and employees are located in Canada.

Year Ended November 30, 2003

	HIP	Video	Datacom	Other	Total
Segment revenue	51,224	71,892	1,275	1,042	125,433
Segment profit	2,477	23,808	(4,746)	1,740	23,279
Amortization	5,051	4,383	668	-	10,102
Capital asset additions	3,990	2,735	757	-	7,482
Total assets	53,706	37,478	3,199	37,300	131,683

Year Ended November 30, 2002

	HIP	Video	Datacom	Other	Total
Segment revenue	57,447	58,046	93	728	116,314
Segment profit	8,784	17,803	(4,868)	(579)	21,140
Amortization	4,894	3,794	482	-	9,170
Capital asset additions	4,640	3,072	313	8,137	16,162
Total assets	52,152	36,169	1,570	32,571	122,462

Revenue by principal markets are as follows:

	2003	2002
United States	43,798	42,312
Europe	18,016	15,657
Pacific Rim	46,860	41,787
Canada	16,759	16,558
	125,433	116,314

During the year ended November 30, 2003, one client accounted for 14% [2002 - 14%] of the company's total revenue.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAXES

Provision for income taxes consists of the following:

	2003	2002
Current income taxes	6,828	7,928
Future income taxes	1,190	(882)
	8,018	7,046

The following is a reconciliation of the expected income tax expense obtained by applying the combined corporate tax rates to earnings before income taxes:

	2003	2002
Expected income tax expense using statutory tax rates	7,758	7,081
Permanent differences and other		
Foreign	-	(39)
Domestic	157	-
Foreign rate differentials	103	4
Provision for income taxes	8,018	7,046
Effective tax rate	34.4%	33.3%

Components of future income taxes by jurisdiction are summarized as follows:

	2003	2002
Canada		
Future income tax liabilities - current		
Accounting income not currently taxable	1,693	806
Future income tax liabilities - long-term		
Tax depreciation in excess of book depreciation	395	249
Other	232	283
	627	532
Foreign		
Future income tax assets - long-term		
Accounting expense not currently deductible for tax purposes	227	435

7. CUMULATIVE TRANSLATION ADJUSTMENT

Unrealized translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the company's self-sustaining foreign operations, resulted in an unrealized currency translation loss of \$789 [2002 - gain of \$151] for the year ended November 30, 2003. The unrealized loss resulted primarily from the strengthening of the Canadian dollar against the Japanese yen.

8. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

	2003	2002
Accounts receivable	5,384	(10,087)
Inventories	(1,289)	2,213
Prepaid expenses and other assets	467	(589)
Income taxes recoverable/payable	(2,344)	3,570
Accounts payable and accrued liabilities	(2,232)	7,578
	(14)	2,685

During the year, the company made income tax payments of \$2,554 [2002 - \$1,057]. At November 30, 2003, cash and cash equivalents are comprised of balances with banks (2003 - \$2,684, 2002 - \$277) and short-term investments (2003 - \$31,584, 2002 - \$18,984) consisting of bank guaranteed investment certificates, banker's acceptances and government sponsored enterprise paper.

9. COMMITMENTS AND CONTINGENCIES

The hearing instrument business segment signed an agreement with a company to fund the development of a new product. The total amount expected to be funded and expensed by Gennum is U.S. \$2.5 million as follows: U.S. \$0.2 million in the fourth quarter of 2003, U.S. \$1.5 million in the first quarter of 2004, and U.S. \$0.8 million in the third quarter of 2004.

The estimated amount required to complete authorized capital projects is \$6,988 at November 30, 2003. The majority of these expenditures are expected to be incurred over the next 12 months.

In the ordinary course of business activities, the company may be contingently liable for litigation and claims with customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it may not be possible to accurately estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the company.

CORPORATE GOVERNANCE

Good governance is key to Gennum's long-term success

Gennum's Board of Directors* firmly believes that good governance is essential to the long-term success of the company. Gennum's Board is responsible to ensure that the company meets the needs of all its stakeholders, a prerequisite in creating long-term value for shareholders.

Eight of the nine Gennum directors are unrelated to management, including the Chairman of the Board, and all three Board committees are composed entirely of unrelated directors. Non-management directors meet separately from management for a portion of every Board meeting. Four of the company's nine directors were appointed within the past two years.

The Board closely follows current discussion on governance standards and strives to incorporate developing aspects of best practice as they might apply to Gennum. For more specific information on Gennum's corporate governance practices, please refer to the most recent management information circular available on our Web site at www.gennum.com.

Board committees* and their mandates

Each of the three committees operate under a written Mandate and Responsibilities document approved by the Board.

The Audit Committee focuses on financial reporting and controls, the external auditor and financial risks, and oversees management's responsibility for reporting on internal controls. The Committee meets with the auditors without management present at least once a year.

Members: H. Patrick Thode (Chairman), H. Douglas Barber, Waldemar A. Pieczonka, Stephen R. Scotchmer, Robert S. Weiss

The Corporate Governance Committee focuses on board membership, structure, organization and compensation. It helps develop appropriate systems and procedures to enable the Board to exercise and discharge its responsibilities. It also conducts periodic assessment of the Board's effectiveness and through the Chairman, reviews the performance of individual directors.

Members: H. Patrick Thode (Chairman), H. Douglas Barber, Waldemar A. Pieczonka

The Human Resources Committee focuses on compensation policies, organizational structure, succession planning and development and the appointment and remuneration of officers. The Committee has prime responsibility for ensuring that succession plans are in place to provide for the eventual replacement of the President and CEO.

Members: H. Patrick Thode (Chairman), Cesar Cesaratto, Roger M. Dickhout, Mark H. Leonard, Stephen R. Scotchmer

Directors*

H. Patrick Thode, CA (Chairman)

H. Douglas Barber, Ph.D.

Cesar Cesaratto

Roger M. Dickhout

Mark H. Leonard

Ian L. McWalter, Ph.D.

Waldemar A. Pieczonka, Ph.D.

Stephen R. Scotchmer

Robert S. Weiss, FCA

For bios on each of the directors, please see our Web site – www.gennum.com.

* As at January 28, 2004

10 YEAR FINANCIAL HIGHLIGHTS

(Canadian dollars, amounts in thousands except as noted)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Revenue	125,433	116,314	93,077	106,536	93,615	83,497	61,522	53,496	42,317	33,204
Net Earnings	15,261	14,094	10,536	18,774	17,462	16,177	11,935	9,706	6,747	5,113
Return on Average Equity (%)	13.6	14.4	11.7	23.5	26.6	31.1	29.6	30.7	27.0	24.7
Net Earnings per Share (\$)	0.43	0.40	0.30	0.53	0.49	0.45	0.33	0.27	0.19	0.14
R&D Expense	35,285	27,671	22,523	17,986	15,013	14,620	12,393	10,148	8,523	7,809
Cash and Cash Equivalents	34,269	19,261	15,658	22,924	15,463	30,653	27,776	19,525	13,115	7,950
Capital Asset Expenditures	7,482	16,162	12,433	9,310	22,807	10,262	3,566	5,479	4,033	2,924
Total Assets	131,683	122,462	106,743	104,380	91,513	82,972	62,840	50,940	39,030	30,460
Working Capital	63,680	50,791	48,278	47,977	36,390	40,453	33,714	23,374	17,863	13,731
Shareholders' Equity	112,762	102,815	92,849	87,269	72,736	58,662	45,219	35,543	27,660	22,399
Number of Employees	576	540	507	491	451	392	325	292	264	247

COMMON SHARE DATA

(in thousands except per share data)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Shares Outstanding	35,696	35,665	35,665	35,665	35,665	35,665	35,665	35,665	35,665	35,665
Market Data - High	17.50	15.25	17.00	19.50	20.70	14.65	11.82	9.00	3.00	2.26
- Low	10.15	10.60	10.00	11.75	13.40	8.42	7.90	3.00	2.14	1.75
- Share Volume	10,383	7,217	8,276	9,599	9,780	7,587	10,704	6,336	10,089	4,329
Shareholders' Equity per Common Share (\$)	3.16	2.88	2.60	2.45	2.04	1.64	1.27	1.00	0.78	0.63

DIRECTORS AND OFFICERS

DIRECTORS*

H. Douglas Barber, Ph.D. ^{AC, CGC}
Private Investor

Cesar Cesaratto ^{HR}
Corporate Director

Roger M. Dickhout ^{HR}
President
Private Equity Operating Partners
Inc. (Toronto, Ontario)

Mark H. Leonard ^{HR}
President
Constellation Software Inc.
(Toronto, Ontario)

Ian L. McWalter, Ph.D.
President and Chief Executive
Officer
Gennum Corporation

Waldemar A. Pieczonka,
Ph.D. ^{AC, CGC}
Retired

Stephen R. Scotchmer ^{AC, HR}
Private Investor

H. Patrick Thode, CA ^{AC, CGC, HR}
Private Investor

Robert S. Weiss, FCA ^{AC}
Retired

^{AC} Member of the Audit
Committee

^{CGC} Member of the Corporate
Governance Committee

^{HR} Member of the Human
Resource Committee

OFFICERS

Gary M. Beauchamp
Vice-President and General
Manager, Data Communications
Products

Peter D. Bloch, CA
Vice-President, Finance and
Administration and Chief
Financial Officer

Gora Ganguli
Senior Vice-President and
General Manager, Hearing
Instrument Products

David L. Lynch
Senior Vice-President and
General Manager, Video
Products

Ian L. McWalter, Ph.D.
President and
Chief Executive Officer

Alan D. Murray
Vice-President,
Quality Assurance and
Human Resources

John A. Mackie
General Counsel and
Corporate Secretary

H. Patrick Thode, CA
Chairman

* As at January 28, 2004

CORPORATE INFORMATION

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E-mail: corporate@gennum.com
Web site: www.gennum.com

* Incorporated under the laws of Ontario

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Transfer Agent & Registrar

Computershare Trust Company of
Canada (Toronto, Ontario)

Auditors

Ernst & Young LLP
(Toronto, Ontario)

Stock Listing

The Toronto Stock Exchange
Trading Symbol - GND

Shareholders' Meeting

The Annual General Meeting of the
Shareholders of Gennum Corporation
will be held at The Burlington
Convention Centre, 1120 Burloak
Drive, Burlington, Ontario on the 14th
day of April, 2004 at 4:30 pm.

For further information,
contact Gennum Investor Relations
(905) 632-2999 ext. 3010, or see the
Investor Relations section of our
Web site at **www.gennum.com**

BOARD OF DIRECTORS



Front row, left to right:

Cesar Cesaratto

H. Patrick Thode (Chairman)

H. Douglas Barber

Stephen R. Scotchmer

Back row, left to right:

Waldemar A. Pieczonka

Robert S. Weiss

Mark H. Leonard

Ian L. McWalter

Roger M. Dickhout

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